

18 October 2019

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General Manager, Policy and Performance  
Australian Energy Regulator  
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Dear Mr Feather

### **Value of Customer Reliability – response to draft decision**

Evoenergy welcomes the opportunity to respond to the Australian Energy Regulator (AER) draft decision on Values of Customer Reliability (VCR).

Evoenergy supports the AER's continued work to develop robust and consistent VCR values to help ensure that network planning and investment achieves customers' preferred balance between efficiency and reliability. Evoenergy broadly agrees with the major components of the AER's draft methodology, including:

- the use of contingent valuation and choice modelling techniques to derive VCR values for residential and small business customers, being most consistent with economic theory;
- the use of a direct survey approach for large business customers with peak demand exceeding 10MVA;
- the use of macroeconomic modelling to derive VCRs for wide spread and long duration outages (WALDO), to account for economy-wide and flow-on costs from extensive outages;
- the use of a CPI-X formula for annual adjustments to VCR values, noting that X will initially be set to zero with the option for this to be reviewed (in consultation with stakeholders) as more information emerges.

This letter sets out Evoenergy's response to the draft decision in three key areas: ACT specific VCR values; transition arrangements; and VCR confidence intervals.

## ACT specific VCR values

As noted in our previous submissions to the AER's consultation paper,<sup>1</sup> and subsequent consultation update paper,<sup>2</sup> Evoenergy strongly supports the development of network specific VCR values for the ACT. ACT specific VCRs are necessary to reflect the territory's distinct climatic and socioeconomic characteristics which differ from the broader NEM region of NSW. We continue to maintain that ACT VCR values cannot be accurately derived by re-weighting estimates from other regions based on customer types. We were therefore encouraged by the AER's intention to construct VCRs for the ACT, as expressed in the AER's consultation update paper.<sup>3</sup>

The AER's draft decision, however, does not make clear whether the AER's final VCR segmentation will explicitly identify ACT customers. In particular, the AER's draft decision proposes that VCRs will be segmented based on NEM jurisdictions, climate zones, and remoteness.<sup>4</sup> Outside of the NEM jurisdictions, the AER also proposes to publish VCR values for the Northern Territory. However, Evoenergy considers that a robust analysis requires developing VCR values for the ACT as distinct from the NSW NEM region, reflecting the composition and preferences of the ACT's customers.

Evoenergy would welcome further clarification from the AER on the final segmentation of VCR values, including whether a distinct VCR will be derived based on survey results from the ACT. The AER draft decision notes that the final level of segmentation will depend on the number of survey responses received from each customer cohort. We would be pleased to discuss with the AER ways to ensure sufficient survey responses are received from ACT customers.

For business customers, Evoenergy supports the AER's proposed methodology of segmenting VCRs by business sector, remoteness, and customer size.

## Transition arrangements

The AER's draft decision notes that the final VCR values for standard outages are expected to be published in December 2019. However, there is limited information on the proposed transition arrangements from the existing VCR values determined by the Australian Energy Market Operator (AEMO).

Evoenergy considers that the new VCRs values should only apply to revenue proposals and regulatory investigations commencing after the publication of the updated values. If the new VCR values are materially different from the existing values, it may be necessary to implement a smooth transition path to support certainty and stability in network planning and investment. A smoothed transition would also be aligned to the AER's proposed CPI-X annual adjustment mechanism, which provides for a graduated change in VCR values over time.

<sup>1</sup> Evoenergy, *Value of Customer Reliability – response to consultation paper*, 16 November 2018, p 2.

<sup>2</sup> Evoenergy, *Value of Customer Reliability – response to consultation update paper*, 24 May 2019, p1.

<sup>3</sup> AER, *Values of Customer Reliability – Consultation Update Paper*, 18 April 2019, pp 30-31.

<sup>4</sup> AER, *Values of Customer Reliability – Draft Decision*, September 2019, Appendix 3.

### VCR confidence intervals

Estimating VCR values involves an inherent level of uncertainty arising from factors such as survey sample selection, heterogeneity of customer preferences, and limitations of willingness-to-pay measurement techniques. Therefore, it would be helpful for the AER to provide a confidence range for the updated VCR values which can be used to undertake sensitivity analysis.

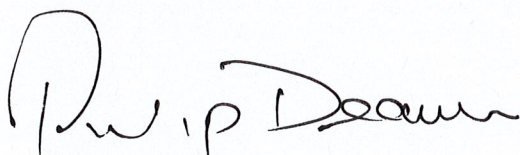
Evoenergy would also welcome the AER publishing key statistics from the VCR surveys, including sample sizes and the number of responses across jurisdictions and customer types. This information would enable greater confidence in the selection of fit-for-purpose VCR values when undertaking network planning.

The AER's draft decision is to impose a \$22/month cap on residential customers' willingness-to-pay to avoid standard outages. It would be valuable for the AER to publish data on the number of survey responses exceeding this cap, and any survey results regarding customer willingness-to-pay for backup power systems. These data would help verify the choice of the \$22/month cap which has been derived based on a desktop analysis of hypothetical scenarios.

Evoenergy looks forward to continuing engagement with the AER on the VCR review, and would welcome the opportunity to make further submissions on the results of the AER's study of VCRs for WALDO events as they emerge.

Should you have any questions, please do not hesitate to contact Lev Yulin, Principal Economist, on (02) 6248 3107 or [lev.yulin@actewagl.com.au](mailto:lev.yulin@actewagl.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read "Philip Deamer".

Philip Deamer

Acting Director, Regulatory Affairs and Pricing

